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SUBJECT: GON SEEKS HELP FROM DONORS

SUMMARY

¶1. (SBU) During a May 17 donor meeting, Finance Minister Ram Sharan Mahat outlined the Government of Nepal's (GON) immediate needs, which included budgetary support and new investment in public works and services. He urged donors to make financial commitments to the government's next fiscal budget that would be announced in early July 2006. The Finance Minister asked donors to be flexible in their giving due to the difficult political conditions in the country. Donors expressed willingness to support Nepal. However, some international donors proclaimed the need for peace with the Maoists before they could make monetary commitments. The Ambassador instead stressed the need to support development and the return to democracy in Nepal regardless of the outcome of the GON's peace talks with Maoists. In contrast to the cautious approach of several European representatives, the Danish and Norwegian Ambassadors announced renewed support to Nepal. End Summary.

FINANCE MINISTER OUTLINES EIGHT PRIORITY AREAS...

¶2. (SBU) In his opening remarks, Finance Minister Ram Sharan Mahat outlined Nepal's bleak economic condition as detailed in a White Paper recently released by the Ministry of Finance (septel), and highlighted the government's current needs. Mahat acknowledged the government's primary concern was the political process, but said that the economic agenda could not be ignored as the economic and political agendas were linked. The Finance Minister listed eight immediate needs of the government as:

- the revival of projects previously terminated or downsized;
- the commencement of new projects that were postponed after the February 1, 2005 royal takeover;
- budgetary support to meet the liquidity crisis estimated to be a budget deficit of USD 71.8 million (5.1 billion Nepali rupees);
- funds for the relief and rehabilitation for conflict victims;
- reconstruction of destroyed public infrastructure;
- new investment in public works and services;
- development of medium-sized power projects; and,
- the development of community based infrastructure and income generation projects.

...STRESSES NEED FOR BUDGETARY SUPPORT, TRADE/TOURISM CONCESSIONS

13. (SBU) Mahat stressed the importance of Nepal's next fiscal year budget and urged donors to make financial commitments in line with the GON's needs in time to be included. Nepal's next fiscal year begins on July 15, 2006 and the annual budget is normally released a few days prior. The Chief of the International Monetary Fund (IMF) in Nepal, Sukwinder Singh, noted that the IMF's Poverty Reduction Growth Facility (PRGF) program would end in four months and challenged donors to decide how much they would donate for Nepal's next fiscal budget so the GON could decide the limits of what it could achieve. He also encouraged donors to decide what role they wanted the IMF to play in Nepal. Ken Ohashi, Country Director of the World Bank (WB) in Nepal, said that if the PRGF terminated without any follow-on program, WB lending would also have to decrease. Ohashi called on the GON to define its development priorities and said the WB could support the GON's next fiscal budget if priorities were properly defined. The Finance Minister also requested friendly countries to revise travel warnings claiming Nepal an unsafe destination and requested "particularly the United States of America and European Nations" to provide duty-free access for Nepalese garments.

DONORS WISH TO SUPPORT GOVERNMENT PRIORITIES, WANT PEACE BEFORE MAKING COMMITMENTS

14. (SBU) Many donor representatives stated that donors should focus on funding the priorities of the new government. Mark Mallalieu, head of the United Kingdom's Department for International Development (DFID) office, stated on behalf of the United Kingdom, Denmark, Norway, Switzerland, Canada, Netherlands, Finland and Germany, that donors should coordinate their actions to help the peace process, not hinder it. Mallalieu emphasized that the overarching need for donors was to help with the peace process and "do no harm." He stressed the need for the government to "widen the development space" through negotiations with the Maoists. The Ambassador called for donors to support development and the GON's efforts to return to democracy regardless of the outcome of peace talks with the Maoists. He said the United States would assist the GON to the "extent possible" with the restoration of peace in Nepal. Matthew Kahane, Resident Coordinator for the United Nations (UN), said the UN was ready to support the peace process and hoped the government would follow the Basic Operating Guidelines previously agreed upon by development partners. Mahat appreciated donor sentiments to support the priorities of the new GON, however, he stressed that, given the difficult political conditions, donors needed to be flexible to help the GON restore peace in Nepal. He stressed that the people of Nepal needed to see some action and improvements in their lives due to government action but noted that it would be difficult for the government to take necessary action without considerable donor commitments. Mahat said the government would soon be talking with the Maoists on a code of conduct to observe under the current ceasefire and that the GON would strive to ensure that development work was protected under that code.

DENMARK AND NORWAY ANNOUNCE AID COMMITMENTS

15. (U) The Danish Ambassador announced that the Danish government would provide USD 21 million (1.5 billion Nepali Rupees) for a rural energy project and USD 7 million (500 million Nepali Rupees) to support the government's peace process. The Norwegian Ambassador stated his government had agreed to restore funding levels to what they were prior to the February 1, 2005 royal takeover.

COMMENT

16. (SBU) The reluctance of many donors to make any financial commitments until the new government has brokered a peaceful solution to the Maoist insurgency could hinder the GON's ability to provide services and win the hearts and minds of the Nepali people in a timely fashion. Financial commitments

are needed sooner rather than later to support the government's peace process and we should continue to work with the donor community to urge them to reconsider their positions.

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